

ORIGINAL



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MEMORANDUM

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TO: Docket Control

FROM: Thomas M. Broderick *TM Broderick*
Director
Utilities Division

2016 JUL -8 A 9:09

AZ CORP COMMISSION
DOCKET CONTROL

DATE: July 8, 2016

RE: SUPPLEMENTAL STAFF REPORT FOR TURNER RANCHES WATER & SANITATION, CO.'S APPLICATIONS FOR A RATE INCREASE AND FINANCING (DOCKET NOS. W-01677A-16-0076 & W-01677A-16-0074)

Attached is the Supplemental Staff Report for Turner Ranches Water & Sanitation Co.'s applications for a permanent rate increase and authorization for financing. Staff recommends approval of the rate application using Staff's recommended rates and charges and approval of the Financing application.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 22, 2016.

TMB:MJR:red/CHH

Originator: Mary J. Rimback

Arizona Corporation Commission

DOCKETED

JUL 8 2016

DOCKETED BY	<i>YK</i>
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Service List for: Turner Ranches Water & Sanitation Co.
Docket Nos. W-01677A-16-0076 & W-01677A-0074

Ms. Judy Lopez
Turner Ranches Water & Sanitation Co.
PO Box 1020
Apache Junction, Arizona 85217

Mr. Jay Shapiro
Shapiro Law Firm, P.C.
1819 East Morten Avenue, Suite 280
Phoenix, Arizona 85020

Ms. Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Mr. Thomas M. Broderick
Director, Utilities Division
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Mr. Dwight Nodes
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

**SUPPLEMENTAL STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**TURNER RANCHES WATER & SANITATION CO.
DOCKET NOS. W-01677A-16-0076 & W-01677A-16-0074**

**APPLICATION FOR A
PERMANENT RATE INCREASE
AND FINANCING**

JULY 8, 2016

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Turner Ranches Water & Sanitation Co., ("Turner" or "Company") Docket Nos. W-01677A-16-0076 and W-01677A-16-0074 is the responsibility of Mary J. Rimback.

A handwritten signature in black ink, appearing to read 'Mary J. Rimback', is written over a horizontal line.

Mary J Rimback
Public Utility Analyst

Staff recommends permanent rates that produce total operating revenue of \$828,763, an increase of \$145,028, or 21.21 percent, over the Staff-adjusted test year revenue of \$683,735, to provide an \$112,204 operating income on the \$935,037 Staff-adjusted FVRB. Staff's recommended rates result in a 13.54 percent operating margin. In addition, Staff recommends a Debt Surcharge Recovery Mechanism ("DSRM") surcharge per customer per month in the amount of \$5.70.

The rate impact recommended by Staff, would increase the typical monthly bill of a Leisure World irrigation customer by \$10.10 per customer per month or a 45.62 percent increase from \$22.14 to \$32.24. (Supplemental Schedule MJR-5).

On June 14, 2016, the Staff report was docketed, and on June 24, 2016 the Company submitted to Docket Control a Response to Staff Report. As a result of this response, Staff supplements the Staff Report dated June 14, 2016, as follows:

- 1) Staff's Analysis of the Company's cash flow from operations indicates that it is sufficient to cover debt service on the proposed loan; thus, Staff initially did not recommend the DSRM proposed by the Company. The financing Application included a term sheet from BBVA Compass Bank Summary of terms dated January 22, 2016 (Exhibit A attached). Staff requested updates to the terms both via email, telephonically and in person. No additional terms were provided to Staff prior to the Staff Report due date of June 14, 2016.
- 2) The Company's Response did include a commitment letter from BBVA (Exhibit B attached) dated April 26, 2016. Section G, (3) of the commitment letter has a provision that loan approval is subject to Arizona Corporation Commission's approval of the rate increase submitted and the surcharge for improvements submitted by Turner or ("TRW").

BBVA's provision, requiring a surcharge was given specific consideration developing this Supplemental Staff Report. As a result, Staff recommends the surcharge of \$5.70 per customer, per month.

- 3) Staff recommends that the expiration date for any unused authorization to incur debt granted in this proceeding be set at December 31, 2018.
- 4) Staff received via email a compliance report from the Arizona Department of Water Resources ("ADWR") indicating that the Company is compliant with ADWR. The Company has stated that it will docket the compliance report.

Staff recommends:

- Approval of Staff's rates and charges as shown in Supplement Schedule MJR-4.

- In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Granting the Company authorization to incur a 10-year amortizing loan in an amount not to exceed \$450,000 pursuant to a loan agreement with BBVA Compass Bank at an interest rate not to exceed WSJ Prime + 1.75 percent fixed for ten years.
- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2018.
- Directing that the Company file with Docket Control documentation as to the terms and closing date of the loan.
- Directing the Company to charge a surcharge per customer per month in the amount of \$5.70 beginning no sooner than 30 days after closing of the loan.
- Directing that the \$5.70 surcharge will be collected for 120 months.
- Directing the Company to provide to the Utilities Division, upon Staff request, a copy of any BBVA Compass Bank loan documents executed pursuant to the authorizations granted herein.
- Authorizing the Company to pledge its assets in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the BBVA Compass Bank loan.
- Authorizing Turner to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Turner, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
- Authorizing the depreciation rates shown in Table 6 of the Engineering Report.
- Directing the Company to install a water meter at the fire and irrigation booster station to register gallons sold to Leisure World residential customers.

RATE DESIGN

	Present Rates	Proposed Company	Recommended Staff
Residential Irrigation - Flat Rate	\$22.14	\$26.10	\$26.54
Residential Irrigation Service - Per Acre - Per Year	\$ 781.26	\$ 921.11	\$936.77
Private Fire Protection			
Flat Rate per Inch in Diameter of Service Connection	\$ 18.50	\$ 21.81	\$22.18
Metered Irrigation Service			
1-1/2" Meter	\$ 111.06	\$ 130.94	\$133.17
2" Meter	\$ 111.06	\$ 130.94	\$133.17
3" Meter	N/A	\$ 130.94	\$133.17
4" Meter	N/A	\$ 130.94	\$133.17
6" Meter	\$ 111.06	\$ 130.94	\$133.17
8" Meter	\$ 111.06	\$ 130.94	\$133.17
10" Meter	\$ 111.06	\$ 130.94	\$133.17
Gallons Included in Monthly Usage Charge	0.00		
Commodity Charge - In Excess of Minimum - 1,000 gallons	\$ 0.80	\$ 0.96	\$0.98
Metered Construction Water			
1" Meter	\$ 33.04	\$ 38.95	\$39.61
2" Meter	\$ 96.31	\$ 113.55	\$115.48
Commodity Charge - Construction Water	\$ 1.66	2.00	\$2.03
Meter Testing: Company states that these charges are not being used presently and are not proposed. Staff recommends that this be removed from the tariff currently on file with the Arizona Corporation Commission			
5/8" x 3/4" Meter	\$ 25	N/T	N/T
3/4" Meter	\$ 25	N/T	N/T
1" Meter	\$ 30	N/T	N/T
1 1/2" Meter	\$ 40	N/T	N/T
2" Meter	\$ 45	N/T	N/T
3" Meter	N/A	N/T	N/T
4" Meter	\$ 120	N/T	N/T
6" Meter	\$ 180	N/T	N/T
8" Meter	\$ 200	N/T	N/T
10" Meter	\$ 220	N/T	N/T

TEMPORARY SURCHARGES FROM DECISION NO. 62319

VARIOUS N/T N/T

Service Line and Meter Installation Charges

	Present Service Line Charges	Present Meter Installation Charges	Present Total	Company Proposed Service Line Charges	Company Proposed Meter Installation Charges	Company Proposed Total	Staff Recommended Service Line Charges	Staff Recommended Meter Installation Charges	Staff Recommended Total
5/8" x 3/4" Meter	\$ -	\$ 400	\$ 400	N/A	At Cost	\$ -	N/A	At Cost	\$ -
3/4 inch Meter	\$ -	\$ 440	\$ 440	N/A	At Cost	\$ -	N/A	At Cost	\$ -
1" Meter	\$ -	\$ 500	\$ 500	N/A	At Cost	\$ -	N/A	At Cost	\$ -
1 1/2" Meter	\$ -	\$ 715	\$ 715	N/A	At Cost	\$ -	N/A	At Cost	\$ -
2" Meter Turbo	\$ -	\$ 715	\$ 715	N/A	At Cost	\$ -	N/A	At Cost	\$ -
2" Meter Compound	\$ -	\$ 1,700	\$ 1,700	N/A	At Cost	\$ -	N/A	At Cost	\$ -
3" Meter Turbo	\$ -	\$ 1,585	\$ 1,585	N/A	At Cost	\$ -	N/A	At Cost	\$ -
3" Meter Compound	\$ -	\$ 2,190	\$ 2,190	N/A	At Cost	\$ -	N/A	At Cost	\$ -
4" Meter Turbo	\$ -	\$ 2,540	\$ 2,540	N/A	At Cost	\$ -	N/A	At Cost	\$ -
4" Meter Compound	\$ -	\$ 3,215	\$ 3,215	N/A	At Cost	\$ -	N/A	At Cost	\$ -
6" Meter Turbo	\$ -	\$ 4,915	\$ 4,915	N/A	At Cost	\$ -	N/A	At Cost	\$ -
6" Meter Compound	\$ -	\$ 6,270	\$ 6,270	N/A	At Cost	\$ -	N/A	At Cost	\$ -
8" & Larger				N/A	At Cost		N/A	At Cost	

	Present Rates	Proposed Company	Recommended Staff
Service Charges			
Establishment	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (After Hours)	\$ 30.00	N/T	N/T
Reconnection (Delinquent)	\$ 20.00	\$ 20.00	\$ 20.00
Meter Test (If Correct)	\$ 25.00	\$ 25.00	\$ 25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$ 15.00	\$ 15.00	\$ 15.00
Deferred Payment	***	***	***
Meter Re-Read (If Correct)	\$ 15.00	\$ 15.00	\$ 15.00
Late Fee	1.50%	1.50%	1.50%
After Hours Service Charge	N/T	\$ 50.00	\$ 50.00
Moving Customer Meter (Customer Request)	N/T	Cost	Cost

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Notation: The Company is not currently charging the surcharge, the surcharge expired one year after it was authorized, however, for clarity, Staff recommends this be removed from the Company's tariff on file with the Arizona Corporation Commission.

Typical Bill Analysis INCLUDING SURCHARGE

Unmetered Residential Irrigation

	Gallons	Present Rates	Proposed Rates Incl Surcharge	Dollar Increase	Percent Increase
	Flat Rate	\$ 22.14	\$ 26.10	\$ 3.96	17.89%
Surcharge	Flat Rate	-	5.70	\$ 5.70	
Total		\$ 22.14	\$ 31.80	\$ 9.66	43.63%
Staff Recommended					
	Flat Rate	\$ 22.14	\$ 26.54	\$ 4.40	19.87%
Surcharge	Flat Rate	-	5.70	\$ 5.70	
		\$ 22.14	\$ 32.24	\$ 10.10	45.62%

Present & Proposed Rates WITH SURCHARGE (Without Taxes)

Gallons	Present	Company Proposed	%	Staff Recommended	%
	3/4 -Inch Meter	3/4 -Inch Meter		3/4 -Inch Meter	
Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 22.14	\$ 31.80	43.63%	\$ 32.24	45.62%
1,000	22.14	31.80	43.63%	32.24	45.62%
2,000	22.14	31.80	43.63%	32.24	45.62%
3,000	22.14	31.80	43.63%	32.24	45.62%
3,500	22.14	31.80	43.63%	32.24	45.62%
4,000	22.14	31.80	43.63%	32.24	45.62%
5,000	22.14	31.80	43.63%	32.24	45.62%
5,100	22.14	31.80	43.63%	32.24	45.62%
6,800	22.14	31.80	43.63%	32.24	45.62%
7,800	22.14	31.80	43.63%	32.24	45.62%
8,800	22.14	31.80	43.63%	32.24	45.62%
9,800	22.14	31.80	43.63%	32.24	45.62%
10,800	22.14	31.80	43.63%	32.24	45.62%
11,800	22.14	31.80	43.63%	32.24	45.62%
12,800	22.14	31.80	43.63%	32.24	45.62%
13,800	22.14	31.80	43.63%	32.24	45.62%
14,800	22.14	31.80	43.63%	32.24	45.62%
15,800	22.14	31.80	43.63%	32.24	45.62%
16,800	22.14	31.80	43.63%	32.24	45.62%
17,800	22.14	31.80	43.63%	32.24	45.62%
18,800	22.14	31.80	43.63%	32.24	45.62%
19,800	22.14	31.80	43.63%	32.24	45.62%
20,800	22.14	31.80	43.63%	32.24	45.62%
25,800	22.14	31.80	43.63%	32.24	45.62%
30,800	22.14	31.80	43.63%	32.24	45.62%
35,800	22.14	31.80	43.63%	32.24	45.62%
40,800	22.14	31.80	43.63%	32.24	45.62%
45,800	22.14	31.80	43.63%	32.24	45.62%
50,800	22.14	31.80	43.63%	32.24	45.62%
75,800	22.14	31.80	43.63%	32.24	45.62%
100,800	22.14	31.80	43.63%	32.24	45.62%

EXHIBIT A



Summary of Terms and Conditions of Proposed Credit Facility

Date: 1/22/16

This summary of indicative terms and conditions is not a commitment to lend or to provide any other service related to a financing. Any such commitment or undertaking will be issued only in writing subject to appropriate documentation, the terms of which are not limited to those set forth herein. This summary of indicative terms and conditions is intended as an outline of certain of the material terms of a proposed financing and is not intended to summarize all of the conditions, covenants, representations, warranties and other provisions that would be contained in definitive loan documents, and is subject to, among other things, completion of due diligence, credit approval by BBVA Compass and SBA eligibility with completion of all loan documents along with other provisions as outlined below.

Borrower: Turner Ranches Water and Sanitation Co.

Operating Company: Turner Ranches Water and Sanitation Co.

Guarantors:

- Judy A Lopez
- Ronald R Lopez
- Sequoia Industries, Ltd

Facility: SBA 7a loan;
Loan amount not to exceed: \$450,000

Use of Funds:

To upgrade/replace/repair/perform needed maintenance to existing equipment located at water wells operated by Turner Ranches Water and Sanitation Company.
Improvements approximately \$500,000
Estimated closing costs \$15,500
Total uses: \$515,500

Source of Funds:

Loan proceeds: \$465,500
Total Sources: \$465,500

*Closing costs and fees have been estimated for planning purposes only. Allocation of sources and uses are based on an estimated total loan balance of \$465,500

Purpose: Proceeds to be used to upgrade/replace/repair/perform needed maintenance to existing equipment located at water wells operated by Turner Ranches Water and Sanitation Company.

Maturity: 10 years

Repayment: Monthly Principal and Interest payment, based on a fully amortized schedule. Amortization period subject to final approval of maximum loan term. Any remaining Principal and accrued Interest due at maturity.

Interest Rate WSJ Prime + 1.75% fixed for ten years. The rate based on this structure if closed today would be 5.25%.

CONFIDENTIAL

This term sheet does not represent a commitment to lend and may not be relied upon as such.

Packaging Fee: \$500

Prepayment fee Noneter

Collateral:

- 1st lien position on Property the Wells are located
- 1st lien position on Equipment to be acquired
- 1st lien position on existing equipment

Closing Costs: Normal due diligence will be required, out-of-pocket costs may include, but are not limited to, legal costs, Appraisal report, Environmental report, etc.

Deposit Accounts: The structure and terms contained herein are conditioned upon Borrower maintaining its primary depository accounts with Lender and agreeing to allow Lender to automatically debit its accounts with Lender for amounts due under the Facility.

Conditions Precedent:

- Appraisal report.
- Environmental Report
- Survey
- Title opinions
- Insurance requirements
- SBA 7A Loan approval from the U.S. Small Business Administration reflecting a guaranty percentage of 75% Satisfaction of any loan conditions or terms imposed by the U.S. Small Business Administration in connection with its approval and guaranty. Borrowers and guarantors agree to provide necessary documentation and execute required forms for Bank to obtain said government guaranty. Bank will prepare SBA application and subsequent forms to obtain valid SBA guaranty on behalf of the borrower(s), guarantors if applicable, affiliates. For this service Bank will charge the above noted packaging fee.
- Properly executed documents in form and substance satisfactory to Lender and/or Lender's counsel evidencing or supporting the Facilities, which may include, but are not limited to, a promissory note and/or credit agreement, pledge or security agreements, financing statements and general/unlimited/unconditional guarantees.
- Additional conditions precedent that Lender considers customary and reasonably appropriate for the Facility.

**Note, all of the foregoing are subject to Lender's receipt and satisfactory review.*

BBVA Compass Bank

Steve Gation
Vice President
SBA Lending Division

This term sheet is issued in reliance on the accuracy of all information, representations, schedules, and other data and materials submitted by Borrower, all of which are deemed material. This term sheet does not contain all of the terms and conditions or other provisions that may be included in the final documents evidencing the Facilities, and is issued at a time before Lender has undertaken a full business, credit, and legal analysis of Borrower and the Facilities.

The terms and provisions of this correspondence are confidential and may not be disclosed by Borrower to any other person or entity. However, the foregoing restrictions on disclosure shall not apply to disclosure(s): (i) to Borrower's legal counsel for purposes of advising Borrower with respect hereto and provided, however, that such counsel agrees to preserve the confidentiality of this correspondence; or (ii) in response to any properly issued subpoena from any court or other governmental authority with jurisdiction over Borrower, provided that Lender has been furnished reasonable advance notice of the intended disclosure and the opportunity to prevent or limit the scope of any such disclosure.

This term sheet is intended for the sole and exclusive benefit of Borrower and Lender and may not be relied upon by third parties.

CONFIDENTIAL

This term sheet does not represent a commitment to lend and may not be relied upon as such.

EXHIBIT B

BBVA Compass

April 26, 2016

Ronald R. Lopez
Judith A. Lopez
Turner Ranches Water and Sanitation Co.
11436 E. North Ridge St.
Mesa, AZ 85207

Dear Ronald and Judith,

Thank you for the opportunity to work with you in connection with the financing needs of your business. We are pleased to provide you with a commitment letter for this loan project. The loan is contingent upon satisfying all conditions set forth in the terms below, approval by SBA and issuance of a 75% guarantee. This commitment letter supersedes all previous terms and/or commitments.

Borrower(s): Turner Ranches Water and Sanitation Co.

Guarantor(s): Ronald R. Lopez
Judith A. Lopez

Loan Amount: \$482,000

Below is a list of the sources and uses of funds for the subject SBA loan. Due to the nature of the funding, this is subject to change. Any changes to be approved by the bank.

Use of Funds	Project	
	Costs	
Working Capital	\$	505,000
Closing Costs	\$	20,155
Guarantee Fee	\$	10,845
Total Project Costs	\$	536,000
Sources of Funds	% contribut to eligible costs	
Borrower Equity Injection	\$	54,000 10.07%
Compass Bank / SBA	\$	482,000 89.93%
Total Project Costs	\$	536,000 100.00%

Purpose: Provide financing for upgrading/improvement/repair of equipment and infrastructure located at their Water Wells located in Arizona.

Rate: The interest rate on the loan is WSJ Prime + 1.50%, fixed for 5 years, then to be adjusted every 5 years at the same rate index for the term of the loan. WSJ Prime base rate for April is 3.50%. If the loan were to close today, the interest rate would be 5.00%.

**If this loan commitment is not accepted in 7 days or does not close in 30 days, rates quoted here within are subject to change based on prevailing market conditions at that time.

Estimated Payment: Based on the above mentioned loan amount, rate and term, the estimated monthly payment would be \$5,213.50.

Term: 10 years - 3 months of interest only payments, followed by 117 monthly principal and interest payments to fully amortize the loan.

Fees: \$500 SBA packaging fee. A loan package prepared in accordance with SBA regulations and procedures will be prepared by Compass and submitted to the SBA for review and approval. This fee is non-refundable.

Prepayment

Penalty: None

Borrower is an entity that is duly organized, properly licensed, in good standing, and has complied with the fictitious name statement and all other laws and statutes required in the State of Arizona.

All financial information submitted by the Borrower to Bank, whether previously or in the future, is and will be true and correct in all material respects upon submission, and is and will be complete upon submission insofar as may be necessary to give Bank a true and accurate knowledge of the subject matter thereof.

All sources of Borrower's \$54,000 equity injection must be verified, as per the use of proceeds outlined above, prior to the closing date being set. Evidence of equity injection, in form and substance satisfactory to Bank, in its sole discretion, must be provided and accepted by the Bank before the date of loan closing. Acceptable evidence of injection may include, but is not limited to; bank/investment statements, certified funds documented at escrow, cashier's checks, front and back of canceled checks with "paid" stamped invoices and executed seller carry notes. Any questions concerning acceptable evidence of injection should be directed to the person assisting you in loan closing.

Collateral:

Payments and performance of all sums and all other obligations under this Agreement shall be secured by a security interest or lien in favor of Compass Bank in or on the following:

Primary collateral will consist of a 1st lien Deed of Trust on land located at 6635 E. Broadway Road, Mesa AZ 85206.

Additional collateral will consist of a 1st lien Deed of Trust on land located at 6741 E. Baseline Road, Gilbert, AZ 85234.

Additional collateral will consist of a 1st lien Deed of Trust on land located at 908 S. Power Road, Mesa, AZ 85206.

Additional collateral will consist of a 1st lien Deed of Trust on land located at 1606 S. 72nd Street, Mesa, AZ 85206 (2 parcels of land with TR-11 well).

Additional collateral will consist of a 1st lien on corporate stock of Turner Ranches Water and Sanitation Company.

Additional collateral will consist of a 1st blanket lien on all business assets of Turner Ranches Water and Sanitation Company including, but not limited to equipment, fixtures, accounts receivable, inventory and general intangibles, excluding vehicles and underground equipment.

If the approved collateral position should change in any way prior to loan closing, additional collateral may be required in order to comply with SBA regulations.

Before the Bank is obligated to disburse the loan, Bank must receive all of the following, each of which must be in the form and substance satisfactory to Bank.

- A. Borrower and guarantors agree to provide necessary documentation and execute required forms for Bank to obtain loan approval from the U.S. Small Business Administration, including the satisfaction of any loan conditions or terms including waiver of spousal guaranty, imposed by the U.S. Small Business Administration in connection with its approval and guaranty. Bank will prepare SBA application and subsequent forms to obtain valid SBA guaranty on behalf of borrower(s), guarantor(s) and if applicable, affiliate(s).

- B. Original executed Security Agreements covering collateral described above.
- C. Evidence that the security interests and liens in favor of Compass Bank are valid, enforceable and prior to the rights and interests of others except those consented to in writing by Compass Bank.
- D. Borrower shall pay all expenses associated with closing the loan and maintaining the Bank's perfected security interest in the collateral.
- E. Borrower agrees to reimburse BBVA Compass for out-of-pocket expenses covering appraisals, abstracts of titles or other record searches, attorney's fees and for other charges or expenses incurred or performed at the request of Borrower, or required for proper documentation and funding of the loan.
- F. Borrower will maintain adequate life, fire, public liability, or other specified insurance as outlined below and will take out and keep in force such insurance as the Bank may require from time to time and will upon request of Bank, deliver to Bank the policies or a schedule of all insurance in force as the Bank may determine from time to time, and will assign those policies to Bank upon the request of Bank. All policies covering property given to Bank as security for the loan shall contain a loss payable clause in favor of Compass Bank.
- G. Borrower agrees to additional provisions as follows:
 - 1. Submission of financial information on the borrower and guarantors dated within 90 days of closing reflecting no material adverse changes in financial condition since issuance of this commitment letter. Material adverse change including but not limited to, the initiation of insolvency, liquidation or bankruptcy proceedings, voluntary or otherwise. Material adverse change is determined at the sole discretion of the Bank.
 - 2. Verification of tax returns by the IRS on Borrower(s) and Guarantor(s).
 - 3. Approval is subject to the Arizona Corporation Commission's approval of the rate increase submitted and the surcharge for improvements submitted by TRW.
 - 4. Bank to engage third party vendor for an appraisal. Satisfactory "As Is" appraised value of at least \$118,200 (combined value on all the land taken as collateral) on commercial real estate located at 6635 E. Broadway Road, Mesa, AZ 85206, 6741 E. Baseline Road, Gilbert, AZ 85231, 908 S. Power Road, Mesa, AZ 85206, 1606 S. 72nd Street, Mesa, AZ 85206.
 - 5. A satisfactory Records Search with Risk Assessment (RSRA) and properly executed Lender Environmental Questionnaire (LEQ) will be required prior to the loan closing on commercial real estate located at 6635 E. Broadway Road, Mesa, AZ 85206, 6741 E. Baseline Road, Gilbert, AZ 85231, 908 S. Power Road, Mesa, AZ 85206, 1606 S. 72nd Street, Mesa, AZ 85206.
 - 6. A life insurance assignment will be required in the amount of at least \$220,000; either individually or collectively by Judy and Ronald Lopez.
 - 7. Copy of water exclusivity agreement or similar documents.
 - 8. Copy of Certificate of Convenience and Necessity (CC&N's).
 - 9. Copy of the recorded easement for equipment located on permanent easement at 908 S. Power Road, Mesa, AZ 85206.
 - 10. Additional documentation required by Bank's attorney to perfect the lien upon receipt and review of the recorded easement for equipment located on permanent easement at 908 S. Power Road, Mesa, AZ 85206.
 - 11. An environmental questionnaire will be required prior to loan closing for equipment located on permanent easement at 908 S. Power Road, Mesa, AZ 85206.

The Borrower signs below that he/she accepts the preliminary provisions outlined in the document and that, this does not constitute a loan commitment until all conditions here outlined or those that may arise in the closing process have been met. This commitment may not be modified or amended, except in writing signed by the parties hereto. This loan commitment will expire 90 days from April 26, 2016. The contents of this commitment letter are confidential in nature and intended only for the use of the Borrower and the Bank. The Borrower may not disclose any contents of this letter, either in whole or in part, to a third party without the consent of the Bank.

This Conditional Commitment Letter is null and void unless accepted in its entirety by borrower(s) and guarantor(s) as evidenced by receipt of a deposit and through signatures below on or before May 6, 2016.

Should you have any questions about the terms and conditions outlined herein, or wish to discuss these terms, please do not hesitate to contact me at 602-778-0783. We look forward to working with you on this loan project. Thank you for the opportunity to earn your business.

BBVA Compass
SBA Lending

Steve Gation, Vice President Date

Borrower:

Judith A. Lopez 5/6/16
Turner Ranches Water and Sanitation Co. Date
Judith A. Lopez, President

Guarantor(s):

Ronald R. Lopez 5-6-16
Ronald R. Lopez, Individually Date

Judith A. Lopez 5/6/16
Judith A. Lopez, Individually Date